

# A New Power

*“Letters of Credit and Tax Exempt  
Bonds for Smaller Deals”*

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# Variable Rate Tax Exempt Bonds



- Rate today is .92%
- Requires a Bank Letter of Credit (.5 –1.5%)
- 10 year average in variable rate is 3.3% / 4.3%
- Borrower has a history of financial stability
- Rarely used for small deals in California

## *Macon, Georgia*

- \$3,6,000 to purchase/remodel a Wal\*mart superstore (bargain purchase)
- Agency had a variable profit history; very strong in 2000/2001 but loss in 2002
- 25 year amortization
- 5 year letter of credit at .75% (BofA)
- Expect all in interest rate of about 4.3%
- Interest rate was  $< 2\%$  at closing

# *United Way of King County*



- \$8.5 MM 25 year variable rate tax-exempt bond - renewable 5 year letter of credit
- Strong credit
- Used to purchase new headquarters building
- Issued RFP for U/W & LOC services
- Underwriting fee proposals: .475% to .90%
- LOC fee range: .50% to 1.50%

## *Menasha, WI*

- \$6,000,000 to establish Goodwill Stores with job training centers in 5 counties
- Agency had a strong profit history – Debt Service coverage of 2.5x
- 25 year amortization
- 5 year letter of credit at .75% (US Bank)
- Expect all in interest rate of about 4.3%
- (This deal closed BQ with Wells Fargo, 4.85% with 10 year reset).

# *Childhaven, Seattle*

- Offers child care & treatment for abused and neglected children under age 6
- \$5 million for major remodel & expansion
- Repaid from capital campaign funds
- Washington Mutual LOC at .75%
- Flexibility for new projects or early repayment

# *Barriers in California*



- Bankers have been burned on LC deals
  - BofA IDBs in the 1980s
  - Senior living deals in the 1990s
- Maybe nonprofits haven't demanded the product ?
  - Sometimes you have to create a market
- Are there enough financial advisors to help?
  - Trail guides can be very helpful

# Currently Writing LC's



- Allied Irish Bank
- US Bank (only in some areas)
- Bank of America is a national market maker in this paper, but generally only does larger deals (\$20 million +) in California
- Wells Fargo does these transactions outside California.



# *Legal Role is Very Important*



- These are legally complicated transactions (no worse than CDBG deals)
- Several law firms will be involved
  - Bond, Bank, Underwriter & Borrower counsel
- Get to know your issuer options
- If demand is there, banks can exercise significant help to make them happen

# *Prepared & Presented by*



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